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C O N F I D E N T I A L SECTION 01 OF 03 JAKARTA 013421

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SUBJECT: SBY - ABE SUMMIT: PLOWING AHEAD ON TRADE AND ENERGY

Classified By: Political Counselor Marc L. Desjardins. Reasons: 1.4 (b, d)

¶1. (C) Summary. Energy and a planned Economic Partnership Agreement (EPA) were the centerpieces of President Yudhoyono's November 26 - 29 state visit to Tokyo. President Yudhoyono and Prime Minister Abe announced that the two sides had "reached agreement in principle" on an Indonesia-Japan EPA, which is to be an enhanced free trade agreement encompassing trade, investment, services, and capacity building/economic cooperation. Japan failed to obtain assurances that Indonesia will extend liquefied natural gas (LNG) contracts beyond 2010-11, but the GOI did reassure the Japanese that Pertamina would at least honor existing commitments. The two sides expressed concern about the DPRK's missile and nuclear tests and called for full implementation of relevant recent Security Council resolutions. End summary.

¶2. (U) Indonesian President Susilo Bambang Yudhoyono (SBY) paid a state visit to Tokyo November 26 - 29. He was the first state visitor to Japan under the Premiership of Shinzo Abe. Substantively, the visit built on SBY's working visit last year. The Indonesian delegation included Coordinating Minister for the Economy Boediono, Foreign Minister Wirajuda, Trade Minister Mari Pangestu, Head of the Investment Coordination Agency M. Lutfi, and Chief of the Armed Forces Marshal Suyanto. While in Tokyo, SBY was received by the Emperor, received an honorary degree from Keio University, and attended receptions hosted by the Japanese Economic Federation (Keidenran) and the Japanese-Indonesian Interparliamentary Association.

Forward Movement on Enhanced Free Trade Agreement  
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¶3. (C) Economic and energy issues were the focus of the SBY - Abe summit. With much fanfare, the two leaders announced the Indonesia-Japan EPA, which, in keeping with Japan's approach to other countries in the region, adds trade capacity building projects across a number of fields to traditional Free Trade Agreement topics including goods and agricultural market access, services market access, customs procedures, investment, intellectual property government procurement, and competition policy. However, after six formal negotiating rounds and numerous informal meetings, the EPA remains a work in progress: SBY and Prime Minister Abe announced only that "agreement in principle had been reached on major elements" of the IJEPA.

¶4. (C) Ken Okaniwa, Minister Counselor for Economic Affairs at the Japanese Embassy, told us that the two countries had

negotiated the text of the EPA along in parallel with substantive market access commitments, and that the final EPA document was nearly finished. However, the investment chapter contained market access commitments the GOI would need to include in a new negative list scheduled to be issued via regulation after the new investment law passed. This could delay final agreement on the EPA into the second half of 2007, although Okaniwa said that President Yudhoyono had told the Indonesian negotiators that he wanted the agreement finished during the first half of 2007. When the IJEPA is finalized, according to Okaniwa, 92 percent of the current volume of bilateral trade between Indonesia and Japan will be duty-free.

14. (C) Okaniwa provided some detail on the commitments the two countries have agreed to so far in the EPA negotiations. On goods market access, tariffs on "sensitive items" will be eliminated "around" 2010. For some items, the two countries will only review additional market access commitments at that time. Japan agreed to eliminate tariffs on mineral and industrial goods, reduce progressively tariffs on pineapples, and eliminate tariffs immediately on shrimp and shrimp products and wood products except plywood. Indonesia will progressively lower tariffs on autos and auto components, as well as "tailor made" steel used in the automobile, electronics, energy, and construction machinery industries. Indonesia will also reduce and eliminate tariffs on electronic products, and eliminate tariffs on apples, grapes, and persimmons.

15. (C) Under the EPA, Indonesia has agreed to liberalize financial, construction-related, audio visual and music, and manufacturing related services. For telecommunications,

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maritime transportation, distribution services, Indonesia agreed to guarantee the level of favorable treatment currently afforded to Japanese investors, but declined to offer this level of treatment to new investors. On customs cooperation, competition policy, and government procurement, Okaniwa said the two sides agreed to various forms of cooperation and information sharing.

16. (C) For the Indonesian side, the most important aspect of the EPA is the chapter on cooperation. Okaniwa said that during the EPA negotiations, the GOI did not seek to balance concessions in one area by requesting Japan make concessions in another area. Indeed, he said Indonesia had been extremely reluctant to characterize the EPA in public as a "liberalizing" agreement. Instead, the two sides worked through economic sectors one-by-one, with Japan typically requesting market access concessions and Indonesia in turn requesting capacity building assistance from Japan to increase the competitiveness of Indonesian companies in that sector. Okaniwa said the EPA contained a "considerable number" of projects to promote the manufacturing, agribusiness, tourism, information technology, financial services, and environment sectors, with an overall emphasis on capacity building for small and medium enterprises. Japan intended to implement most of these projects using official development assistance (ODA) funds, although some Japanese industry associations and companies might chip in as well.

Energy: No Joy For Japan On LNG

17. (C) On energy issues, the Joint Statement, entitled "Strategic Partnership for Prosperous Future," notes that Prime Minister Abe "expressed Japan's strong interest in ensuring the stable supply of Liquefied Natural Gas to Japan," but that SBY merely "pledged to honor existing contracts which would expire in 2010 and 2011." SBY went on to invite Japan to "promote bilateral activities and mutually beneficial investment relating to the joint development, including capacity building, of sustainable and renewable energy such as bio-fuels and bio-mass."

¶8. (C) Okaniwa and First Secretary for Political Affairs Daisuke Nihei explained this passage further. Several Japanese companies have LNG agreements with Pertamina that are set to expire in 2010-11, and wanted assurances that the supply will continue after that time. However, Indonesia's domestic gas demand is growing and supply from many fields has not kept up with projections. During the summit, SBY declined to extend assurances. Nihei did concede that the GOJ is pleased with the GOI's agreement to "honor existing contracts," since there is real concern that Pertamina might renege on current commitments.

¶9. (C) With no change in Indonesia's overall gas supply situation, this provision effectively means that Pertamina will continue to purchase LNG cargoes on the spot market through 2011 to fulfill cargoes due under its contracts. U.S. industry sources currently estimate a gap of 50-60 cargoes through 2011 (at a current price of more than \$26 million per cargo) between the volumes called for under Indonesia's LNG contracts with Japan, Korea, and Taiwan, and amounts Indonesia can realistically supply. Although Japan could also purchase cargoes on the spot market directly, obtaining a pledge from Indonesia to honor its LNG contracts in effect requires Pertamina to bear the upside price risk should the LNG spot price rise above prices specified in the long term LNG contracts with Japan.

Labor: A Trickle of Guest Workers  
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¶10. (C) Japan agreed to set up plans for Indonesian nurses and care providers to train and work in Japan and for Indonesian hospitality workers to train in Japan. The Indonesian guest workers will spend at least a year in training programs. However, this will be extremely challenging for Indonesians wishing to work as nurses, since they will be required to pass the standard nursing exam in Japanese before they can be certified. There is a less rigorous certification process for caregivers of the kind employed in nursing homes and similar facilities.

Regional Strategic Issues/North Korea  
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¶11. (C) The Joint Statement welcomes Indonesia's membership on the U.N. Security Council and expresses Indonesian support for permanent UNSC membership for Japan. Nihei told us this is a change in the GOI's position; previously, the GOI would only go so far as to say that Japan was "qualified" to be a permanent UNSC member.

¶12. (U) In the Joint Statement, Japan and Indonesia expressed agreement on the importance of a strong ASEAN and commitment to "open, transparent and inclusive" East Asia community building, including in the East Asia Summit and ASEAN Plus Three Frameworks.

¶13. (C) On North Korea, the leaders expressed shared concern about the DPRK's missile launches and nuclear test, and urged full implementation of U.N. Security Council resolutions 1695 and 1718. At Prime Minister Abe's urging, the statement included language urging the DPRK to respond to "other security and humanitarian concerns . . . including the abduction issue."

¶14. (C) Nihei commented that the Japanese Ambassador had recently demarched Foreign Minister Wirajuda on concerns relating to North Korea. At that time, Wirajuda had said that the GOI was finding it hard to reconcile its commitment to democracy and human rights with its desire to maintain historically good relations with Pyongyang. Wirajuda had gone on to tell the Japanese Ambassador that because of Indonesia's new UNSC responsibilities, he was rethinking the

GOI's doctrinal opposition to country-specific resolutions at the UN. Wirajuda cautioned that it would be very difficult to impress new ideas in this regard on the Department of Foreign Affairs bureaucracy, according to Nihei.

#### Maritime Security

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¶15. (C) The Joint Statement only contains boilerplate language affirming Indonesia's sovereignty and exclusive economic zone in the Straits of Malacca and other Indonesian territorial waters. The GOI thanks Japan for grant aid for the construction of patrol vessels. Nihei said the GOJ is very frustrated with Malaysian and Indonesian stubbornness on maritime security issues. Obsessed with sovereignty and unwilling to admit the real extent of the problem, these governments are obstructing conclusion of a Regional Cooperation Agreement In Combating Piracy. Prime Minister Abe had pressed for inclusion of a reference to this agreement in the joint statement, but the Indonesians had rejected it, according to Nihei.

Footnote: No Japan Hands at the Top

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¶16. (C) First Secretary Nihei went on to recount the tribulations of working with the Indonesian bureaucracy to organize the summit. Although the Indonesian Department of Foreign Affairs had agreed to the full program several weeks in advance, the President's staff demanded major, highly problematic changes less than two days before SBY's departure. Clearly, SBY's foreign affairs aides had been preoccupied with the November 20 visit of President Bush and had only focused on the Tokyo program at the last minute. The Indonesians requested cancellation of several events, including a reception to be hosted by the Japan-Indonesia Parliamentary League and a meeting with the leadership of the Japanese Business Federation (Keidanren). The latter request was particularly embarrassing since that organization was also hosting a reception for Yudhoyono's delegation. Several courtesy calls by Japanese Ministers on SBY were also cancelled at the Indonesians' request.

¶17. (C) Nihei attributed these perceived snubs to the fact that, in contrast to the Soeharto era, there was no one now in the President's circle of advisors who understood the various players on the Japanese side of the bilateral relationship. There was a perception on the Indonesian side, Nihei said, that relations with Japan were business as usual, whereas the rise of China merited special attention.

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